

Unrelated trade or business; alumni association's travel tour program. A travel tour program operated by a university alumni association for members and their families, under which the association, working with various travel agencies, schedules several tours annually to destinations around the world, mails out promotional material, accepts reservations, and is paid a fee by the travel agencies on a per person basis, is an unrelated trade or business within the meaning of section 513 of the Code.

Advice has been requested whether, under the circumstances described below, the operation of a travel tour program by a university alumni association, exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954, constitutes unrelated trade or business within the meaning of section 513.

The stated purpose of the association and, the basis for its exemption under section 501(c)(3) of the Code, is the promotion of education by assisting a given university, both financially and otherwise, and by encouraging its member alumni to do the same. It implements this purpose principally by working to raise funds for the support of the university. It also publishes an alumni newsletter and maintains an alumni center for its members on the campus of the university.

The association has instituted a travel tour program that is open to all current members of the alumni association and their immediate families. Approximately ten tours are scheduled annually to various destinations around the world.

It works with various travel agencies in planning package tours, mails out promotional brochures on tours to its members, and receives reservations. Each travel agency it uses pays it a per person fee.

There is no formal educational program conducted in connection with these tours, and they differ in no substantial way from regular commercially operated tours. The association provides an employee to accompany each tour to serve as a tour leader.

Section 513(a) of the Code provides that the term 'unrelated trade or business' means any trade or business the conduct of which is not substantially related to the exercise or performance of an organization's purpose or function constituting the basis of its exemption under section 501, aside from its need for income or funds or the use it makes of the profits derived.

Section 1.513-1(c)(1) of the Income Tax Regulations provides in substance that to determine whether trade or business is 'regularly carried on,' one must look to the frequency and continuity with which the activities productive of the income are

conducted and the manner in which they are pursued.

Section 1.513-1(d)(2) of the regulations provides that trade or business is 'related' to exempt purposes, in the relevant sense, only where the conduct of the business activities has causal relationship to the achievement of exempt purposes (other than through the production of income); and it is 'substantially related,' for purposes of section 513 of the Code, only if the causal relationship is a substantial one. Thus, for the conduct of trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

By making available various travel tours to its members in the manner described, the association is furnishing its members with a regularly carried on commercial service not substantially related to the educational purposes of the organization. The provision of travel tours is not in itself an educational activity. See Rev. Rul. 67-327, 1967-2 C.B. 187.

Because there is no causal relationship between this activity and the achievement of the association's exempt purposes, the activity does not contribute importantly to the accomplishment of the association's purposes that are the basis for its exemption under section 501(c)(3) of the Code.

Accordingly, under the circumstances described, the sale of travel tours by the association to its members is unrelated trade or business within the meaning of section 513 of the Code.